Cow-Calf Lease Agreements

Saskatchewan Agriculture and Food

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Foreword

This publication provides an overview of some of the different types of cow-calf leasing arrangements. A variety of different types of leasing arrangements may be arrived at to meet the needs of the parties involved. It is essential that both parties understand the implications and are comfortable with all aspects of the lease prior to entering into an agreement. A lease is a legal agreement.

This publication should not be considered as either an interpretation or complete coverage of all the laws affecting rental arrangements, nor the implications of the *Income Tax Act*. The Government of Saskatchewan assumes no responsibility towards persons using it as such.

All rental arrangements should be discussed with an Extension Agrologist or Farm Management Agrologist, accountant, tax consultant and your lawyer before they are signed. Revenue Canada will also provide information on tax implications.

This publication describes livestock leasing based on good business practices. The sample lease agreement provided in the publication is for illustration purposes only. It should be an objective of the parties to keep the lease agreement as clear and concise as possible. A lawyer should review any lease agreement before it is finalized.

For more information on this publication contact your Extension Agrologist or Farm Management Agrologist at your nearest Rural Service Centre

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Introduction

Livestock leasing is not a "get rich quick" scheme but rather a process to expand a herd or enter into the livestock business. The main benefit of leasing is that the risks are shared between the owner of the livestock and the operator; but remember, the profits are also shared.

A lease agreement is a legal document that sets out the responsibilities and obligations of each party. A formally written lease also provides protection to the parties in the event of the death of one of the parties, and it assists in the settling of differences or misunderstandings by clearly addressing all the issues in a clear fashion.

There are many items and conditions that need to be included as terms of an agreement. Both parties must carefully examine the terms and conditions to ensure that they are acceptable. This publication provides sample clauses for a cow-calf lease agreement.

Four Reasons to Lease Livestock

Livestock leasing can be a very useful management tool for:

1) producers who want to expand an existing enterprise without a large debt load;

2) producers or investors to enter into the business, including the next generation;

3) producers who wish to retire from the business but not totally leave the industry; or

4) producers who need to leave the business for a few years but wish to return.

In the past, livestock leasing was a popular way to obtain access to exotic breeds of cattle or access to pure bred herds. Today, good genetics and a reduced debt load are still some of the benefits, but it is also a popular way to get into the bison, elk or deer industry.

There are a number of reasons why two parties may find it mutually beneficial to enter into a lease agreement. It is a valuable tool for producers who want expansion but do not want the high debt load. A neighbour may own livestock but might not have enough forage and facilities or just wants a lighter workload. Together, they may be able to reach a lease agreement to their mutual benefit.

Investors can participate in the industry without requiring any direct management or a large investment into land and facilities. It may allow the investor (or any producer) access to another producer's excellent genetics or superior management skills.

Getting the next generation involved in livestock production is often another goal and livestock leasing is a less risky way for this to happen. It might involve sons or daughters or neighbours, with the final result being that they get there with a reduced cash outlay.

Retiring producers can begin the process of leaving the business while still maintaining an active interest in livestock production and not incurring a large amount of taxable income in one year. Often these producers want a reduced commitment of time and energy to the livestock operation.

It is also an effective method for an existing producer who has to temporarily leave the farm for a period of time but wishes to return at some point. Not having to sell the herd he/she has built up is the obvious advantage.

Types of Livestock Leasing Arrangements

The four most common types of livestock leasing arrangements are:

1. Percentage of Costs Approach (or Contributions Approach)
2. Flexible Share
3. Fixed Number of Calves
4. Cash Lease (rent-a-cow)

Regardless of the option you choose, you need to determine the costs of the livestock operation. Completing Table 2 (page 8) will assist you in determining the arrangement suits your needs.

Herd replacement is often one of the most negotiated issues. Simplicity is often important in herd replacement. If herd replacements are selected from the calf crop, additional compensation or a higher percentage of the calf crop should be awarded to the operator. Selecting replacements from the calf crop can be the simplest to administer, plus the operator has the advantage of being involved in making the best selections. Other options include the owner supplying (at the owner's expense) all replacements. The owner, the operator or both parties can select these new purchases. Regardless of which method is used, the owner should retain ownership of the whole herd or the parties should look into a joint venture arrangement.

1. Percentage of Costs (Contributions) Approach

The owner and the operator calculate the percentage of the total costs that each party contributes to the arrangement. The two parties share the number of calves or the revenues from the sale of calves at that same percentage. Under this type of agreement, the operator and the owner share both the production and market risk, at the same proportion as the calf share.

By completing the worksheet in Table 2, the owner and operator calculate their share of the total costs. The expenses used in Table 1 are for illustration purposes only. The parties should work together to determine their **own** cost contributions. For further help in completing Table 2, work through the worksheets in the publication titled *Cow-Calf Enterprise - Financial and Production Targets for Farm Managers (December 1999).*

Percentage of Costs Example

It is agreed that the Owner and Operator will share revenue or calves on the basis of the contribution of each party.

	Total	Owner	Operator
Total costs	$677.94	$156.30	$521.64
Percentage share		**23%**	**77%**

This example shows that the 23% of the revenue or calves goes to the Owner, 77% goes to the Operator.

As previously stated, replacements may be purchased or raised from heifers selected from the calf crop. Remember to negotiate a method which works the best in your situation.

If replacements are retained from the herd, then the operator should receive some compensation for the extra costs of raising the heifer calves. In such cases, additional clauses or a separate agreement could be signed detailing the costs and compensation for the operator. This agreement could be based on a cash payment, cost per pound of gain, or some other arrangement. In some long-term agreements, the operator receives a portion of the income from the sale of culls as compensation for raising the replacements.

2. Flexible Share

Under a flexible share lease agreement, revenue from the sale of calves is first paid to the operator to cover operating costs. The balance is then split between the operator and the owner on a predetermined share. The concept is to minimize the risk to the operator especially in poor years, but the owner receives more in good years. The amount or percentage of sharing depends on costs on a case-by-case basis, and a year-by-year basis.

This type of agreement works well in arrangements where a new generation of producers is being started. The next generation is somewhat protected since basic operating costs are covered, even in poor years, while payment to the owner would be reduced in bad years and subsequently higher in good years.

Under the flexible share lease agreement, the owner of the cattle is exposed to a greater amount of production and market risk. In exchange for accepting more risk, the owner receives a higher percentage share of revenues than in the contributions approach

Flexible Share Example

It is agreed that the operator will receive the first share of revenue to cover selected cash costs.

	Total	Owner	Operator
Selected costs	$273.15	0	$273.15
Other costs	$404.79	$156.30	$248.49
Percentage share		**39%**	**61%**

This shows that the first $273.15 goes to the operator, the balance of the revenue shared 39% to the owner and 61% to the operator.

As outlined in the contribution approach, the owner and operator should determine in advance the cost categories which should be considered, the major costs each will be contributing and the percentage of the total costs each party has contributed in each of the cost categories. As well, the parties must agree on how surplus revenue (revenue in excess of operating, fixed and opportunity costs) is to be split.

3. Fixed Number of Calves

Lock in or fix the exact number of calves the owner is to receive, rather than a percentage of the calves. In this type of an agreement, the operator accepts all of the production risk. The operator is exposed to the variations in death loss, rate of gain, market price and feed costs.

In this case, the owner accepts the risk on the rate of gain and market price. The owner must be confident of the operator's management abilities.

By completing Table 2 (page 8), the percentage of costs can be used as a basis for determining the number of calves to be received. From the example in Table 1, the owner may decide that 23% of the expected calf crop is a reasonable arrangement.

A description of how the calves will be selected (alternating choice, chute run, etc.) should be listed. The owner may also want to specify size, breed and gender of the calves to be selected.

4. Cash Lease

In a cash lease agreement the owner receives a fixed payment, either an annual or several payments over the year from the operator. The yearly total rent can be negotiated each year or fixed for the term of the lease. A cash rental arrangement works well when land, buildings and cattle are rented as a unit.

The operator accepts all production risk but receives all income from the sale of the calves. The operator's returns will vary with weaning percentage, weaning weight, calf price and feed costs.

In negotiating a cash lease, the owner will want to receive enough income to cover all costs of owning the breeding herd. If the owner is also renting land and/or buildings as part of the arrangement, the cost of owning these assets must be considered.

The annual cost of owning cattle should include an annual cost for replacement, interest on investment and a value for death loss. The following formulas may be used to estimate these costs.

Cash Lease Example

By completing Table 2, the owner's costs are calculated. This could represent a fair amount to charge. This amount should be reduced by 10 to 15% since there is no risk being assumed by the owner.

In the example in Table 1,	
Owner's total annual cost per cow	$156.30
Reduce by 10%	$15.63
Rent to be charged	**$140.67**

Rent reductions should be considered in the same way cash land rent is discounted. The owner should reduce the rent by 10 to 15% to compensate the operator for assuming all the risk.

Cash rent, although not very common in the livestock sector, remains a viable option for owners who do not wish to assume any risk. However, with this reduced risk, the owner will receive less rent in most years.

Advantages and Disadvantages of Leasing

Advantages of Leasing

The owner can:

- retain ownership of the herd, while specializing in another area of farming or business;
- adjust the scale of the operation to a manageable size by leasing out part of the livestock assets;
- have access to skilled management if own experience is limited; and
- maintain an active interest in cattle production while phasing into retirement.

The operator can:

- reduce fixed capital costs when starting or expanding the operation;
- make further use of resources such as livestock buildings and pasture;
- test the viability of an enterprise before making an investment; and
- gain experience in livestock production under the direction of an experienced owner.

Disadvantages of Leasing

The owner:

- has the potential for low returns if the operator is inefficient;
- loses direct control over management of livestock; and
- may find it difficult to keep the livestock, especially in short term, if the agreement is terminated.

The operator might:

- find that the owner interferes with management decisions; and
- have the potential for low returns if the livestock comes to the farm in poor condition.

Points to Consider in Designing an Equitable Lease Agreement

If you are looking for a long-term lease arrangement, the arrangement needs to be equitable between both parties. The choice of the type of lease can be based on the sharing of expenses or the sharing of production or market risks, or all of the above.

Livestock producers face two major kinds of risk, production risk and marketing risk. Production risks are such things as feed costs, pounds of gain, pregnancy and calving rates, and death losses. Proper management can minimize some of the production risks. Marketing risks are things like the calf type and condition, fluctuating price, location and timing of marketings.

Consideration should be given to how much risk each party is able and willing to take on. The type of leasing arrangement you agree upon can significantly alter the amount of risk assumed by each party. You can't have your cake and eat it too, so make the arrangement equitable and acceptable to both parties.

Trust is a very important component of any livestock leasing agreement. Many things can go wrong in a business arrangement, so when it comes to the very subjective area of how you treat the livestock, trust becomes an important component.

In addition to the fairness of the terms, the agreement should be comprehensive and professionally written. There must be a mutual advantage to entering into the agreement. If both parties mutually benefit in the arrangement, then it should be able to survive over the long term.

Going through the sample agreement will prompt you to think about the many important issues. Prior to entering into the agreement, both parties should consider and agree on many of the following issues.

Issues Important to the Owner

1. Are you comfortable with the back-up plan if grass runs out?
2. If there is soundness score for cattle going into the arrangement, should there be a condition score leaving the operation?
3. Have you agreed on an acceptable rate of death loss?
4. Are you comfortable with how the operator handles the livestock and how often the cattle are checked?
5. Do you trust the operator? The quality of fencing or the amount of feed put up and its quality are all indicators of how the operation is run.

Issues Important to the Operator

6. Are you aware of the condition of the livestock coming in? Condition can be a key factor in the first year's profitability.
7. Do you have enough influence over the selection of replacements?
8. Do you trust that the owner is in this arrangement for the long term?
9. Who is responsible for the purchase and the selection of bulls or semen?
10. Are you comfortable that the agreement gives some flexibility for you to manage properly, i.e. dates when to remove bulls, breeding ratios and feeding program?
11. Who pays for antibiotics and veterinary services for the cowherd? for the calves?

Issues of Importance to Both Parties

12. Have you agreed on the replacement procedure for culls?

13. Which veterinarian will be used?
14. Whose brand will the cows and calves carry?
15. When and how will culls and calves be sold?
16. Do you have a provision to renew the agreement?
17. Will both parties be required to carry liability insurance?
18. Is there a minimum and maximum number of head that the herd will contain?
19. How will death loss of cows and calves be handled and losses verified?
20. Are strays and stolen cattle handled the same as death loss?
21. What happens if the owner or operator dies?
22. Are both parties comfortable that they are protected against the other's creditors or heirs?

Completing a Lease Agreement

1. Read this publication and study the sample clauses carefully to determine the impacts of each clause. Consult with your Extension Agrologist, or Farm Management Agrologist **and** your lawyer.

2. Calculate what you think is an equitable arrangement. Examples and worksheets are included to serve as guidelines in calculating the contributions of each party to the arrangement.

3. Both parties should meet to discuss the terms of a prospective lease, deciding which clauses are needed and deleting the ones which are not needed. Make changes where desired and have one party draft the prospective agreement.

4. Each party should then consult their own lawyer to determine final wording to meet the needs of both parties. Both parties sign the final copy in duplicate.

Table 1: Worksheet to Determine Costs

Selected Operating Costs	Example Farm (100 cows)		Owner	Operator
	Total	Per cow	Per cow	Per cow
Feed, salt and minerals	$14,164	$141.64		$141.64
Bedding	$2,900	$29.00		$29.00
Veterinary and medicine	$3,199	$31.99		$31.99
Machinery repairs, fuel and lube	$1,320	$13.20		$13.20
Building and fence repairs	$1,082	$10.82		$10.82
Manure removal	$1,650	$16.50		$16.50
Utilities and miscellaneous	$3,000	$30.00		$30.00
Subtotal	$27,315	$273.15	$0	$273.15
Other Costs				
Herd replacement*	$6,000	$60.00	$60.00	
Herd death loss*	$1,100	$11.00	$11.00	
Herd investment cost*	$6,300	$63.00	$63.00	
Bull feed, salt, vet costs, etc.**	$284/bull	$9.47	$9.47	
Bull replacement and death loss*	$280/bull	$9.33	$9.33	
Bull pasture (land) cost***	$113/bull	$3.76		$3.76
Bull investment cost*	$105/bull	$3.50	$3.50	
Facilities – depreciation	$1,725	$17.25		$17.25
Facilities – investment cost	$1,208	$12.08		$12.08
Machinery – depreciation	$2,810	$28.10		$28.10
Machinery – investment cost	$1,202	$12.02		$12.02
Land (pasture) costs***	$11,300	$113.00		$113.00
Labour, paid and unpaid	$6,228	$62.28		$62.28
Subtotal	$40,479	$404.79	$156.30	$248.49
Total		**$677.94**	**$156.30**	**$521.64**
Per cent Share			**23%**	**77%**
Trucking and Marketing		$12.34	$2.85	$9.49

* - Assumes the owner supplies herd replacement and breeding stock.
** - Assumes the owner pays the operator a fee for service for keeping the bulls.
*** - Assumes the operator supplies all pasture land.

The figures used above were, in part, developed from the publication *Cow-Calf Enterprise - Financial and Production Targets for Farm Managers (December 1999).* **Do not assume any of the figures in the example represent your own farm situation**. These figures vary from operation to operation. Use realistic figures that apply to your operation.

Table 2: Worksheet to Determine Costs

Selected Operating Costs	Your Farm (total)	Owner (split)	Operator (split)
Feed, salt and minerals			
Bedding			
Veterinary and medicine			
Machinery repairs, fuel and lube			
Building and fence repairs			
Manure removal			
Utilities and miscellaneous			
Subtotal			
Other Costs			
Herd replacement			
Herd death loss			
Herd investment cost			
Bull feed, salt, vet costs, etc.			
Bull replacement and death loss			
Bull pasture (land) cost			
Bull investment cost			
Facilities – depreciation			
Facilities – investment cost			
Machinery – depreciation			
Machinery – investment cost			
Land (pasture) costs			
Labour, paid and unpaid			
Subtotal			
Total			
Per cent Share			
Trucking and Marketing*			

* - If one party pays for all the trucking or marketing, then this figure should be added as a cost prior to calculating the percentage share.

Sample Cow-Calf Lease Agreement

This Cow-Calf Lease Agreement made in duplicate, this _____ day of _____, 20_____

BETWEEN:

_____ of _____
(Owner's Name) (Address)

in the Province of Saskatchewan, ("the Owner"),

- and –

_____ of _____
(Operator's Name) (Address)

in the Province of Saskatchewan, ("the Operator").

THE PARTIES AGREE AS FOLLOWS:

1. Description of the Herd

   a) The Owner shall deliver _____ cows and or heifers *(you may want to indicate a range of numbers, such as 'not more than but not less than' or you may want to stress the cows are already bred)* described in Schedule A, ("the Herd") at the Operator's ranch on or before _____ *(date)*.

   b) The Herd shall arrive in good condition. The cattle will have a condition score of between _____ and _____ on arrival.

   c) Bred cows from the Herd shall be certified to be pregnant by a professional veterinarian. The Owner shall be responsible for costs relating to pregnancy testing.

   d) The livestock will be fed and cared for at the facilities located on _____ and will not be moved without the Owner's consent.

2. The Offspring

a) It is agreed and understood that the Owner owns the Herd. All offspring born during this agreement are the property of the Owner until _____ *(specific date or life stage such as birth or weaning, or at the date of sale)* of each year, after which ownership shall transfer to the Operator as specified in this agreement.

b) All offspring will be identified with the Owner's _____ *(brand, tag or other method of identification)* until ownership changes. At the time where ownership changes, a brand release *(if applicable)* shall be signed by the Owner to acknowledge the transfer of ownership to the Operator. *(You may wish to clearly indicate how and when the unique identification tags will be used, in accordance with The Domestic Game Farm Animal Regulations.)*

(The key point of this section is to make it clear to all parties the point at which ownership transfers whether it occurs at birth or at weaning, or some other time. This may not seem all that important, especially if the lease is based on sharing the revenue from the sale of the calves, however, it is very important if the agreement is to be terminated for some reason.)

3. Breeding

a) The Owner shall provide _____ breeding bulls which meet mutually agreeable standards *(these standards may stipulate that the bulls are fit and have been recently semen tested by a veterinarian)* and any injured or non-performing bulls will be replaced at the expense of the Owner so that the cow to bull ratio is not more than _____ cows to one bull.

- or -

The Operator shall provide _____ breeding bulls which meet mutually agreeable standards *(these standards may stipulate that the bulls are fit and have been recently semen tested by a veterinarian)* and any injured or non-performing bulls will be replaced at the expense of the Operator so that the cow to bull ratio is not more than _____ cows to one bull.

b) The Operator agrees that the bulls will be placed with the cows on _____ *(date)* and removed by _____ *(date)* of each contract year. *(You may want a clause to clearly state any specific breeding requirements; such as may be the case where the Owner wants his/her cows bred by the Owner's bull only.)*

c) Artificial insemination (AI) shall be handled in the following manner: _____

_____

The clause must address who pays for semen, additional time and labour, etc.

3. Management, Care and Veterinary Services

a) The Operator shall supply at his or her cost; water, pasture, feed, vitamins and minerals, necessary shelter, and all labour for supervision and care of the animals, in order to promote growth, prevent disease and care for the well being of the Herd and its offspring. *(This listing should include or exclude any of the above and can extend to routine care, such as de-worming, growth hormones or antibiotics.)*

b) The Operator shall care for the livestock in accordance with industry's recommended code of practice. *(You may wish to specifically identify the code, such as the code of practice as written by the Canadian Agri-Food Research Council.)*

c) The Operator will keep the livestock in good condition, maintaining a condition score of not less than _____.

d) If grazing capacity is lowered due to drought or any other natural disaster, the following plan will be enacted,

_____

_____

_____

e) The Owner and Operator shall share, in the same proportion as the calf crop, *(or whatever method of sharing)* such costs arising from medications and treatment procedures by the Operator or any service administered by a professional veterinarian to the Herd and their offspring. *(This should include a listing of what medical treatments the Operator may perform, but for which the Owner is responsible, this might include special treatment for footrot, or some injury where the animal must be segregated.)*

4. Death, Loss, Forced Sale and Insurance

a) Death, loss or forced sale of any animal from the Herd shall be at the expense of the Owner, up to a loss rate of _____ animals *(or %)*. Any losses greater than this shall require a veterinarian, at the cost of the Operator, to verify the cause of death. If the cause of death is by natural causes, the Owner agrees to accept the loss.

If the Operator is deemed negligent toward the death, loss or forced sale of an animal from the Herd, as determined by the above veterinarian, then the Operator will be responsible for the replacement cost of that animal with an animal which is mutually acceptable to both parties.

b) Death, loss or forced sale of any of the offspring of the Herd shall be at the expense of both parties, shared in the same proportion as the calf crop, between the Owner and the

Operator up to a maximum loss rate _____ animals *(or %)*. Any losses greater than this shall require a veterinarian, at the cost of the Operator, to verify the cause of death. If the cause of death is by natural causes, the Owner and the Operator agree to share the loss in the same proportion as the calf crop. All costs associated with the sale or disposal of any of the off-spring as well as any revenue will be shared in the same proportion as the calf crop.

If the Operator is deemed negligent toward the death, loss or forced sale of an off-spring of the Herd, as determined in this section, then the Operator will be responsible for the replacement cost of that animal with an animal which is mutually acceptable to both parties.

c) The Operator or Owner *(jointly or individually)* may, at his or her expense, carry any insurance on the Herd or its offspring and that party would be entitled *(jointly or individually)* to the insurance proceeds.

5. Culls and Their Replacements

a) On or before _____ *(date)* of each year of this agreement, the Owner and Operator shall mutually agree upon the livestock that are to be culled. *(In some arrangements, the Operator may want to have the power to decide which animals need to be culled.)*

b) The Owner will receive 100% of the proceeds from the sale of all cull animals and is responsible for all trucking and marketing costs.

c) Upon the sale of the cull animals, the Owner shall replace each cull animal with an animal mutually acceptable to both parties.

6. Division of Income – *(Use the appropriate clause.)*

Cash Lease

The Operator agrees to pay the Owner the sum of $_____ per animal delivered and described in Section 1 of this agreement. Payment is to be made on or before _____ _____ *(date)* of each year. *(In some arrangements the payment is based on a full season, by the month or even by the number of weaned calves.)*

- or -

Percentage of Costs Approach

The Operator shall be entitled to _____% and the Owner _____% of the sale revenues by _____ *(date)* of each year. Sale revenues are herein considered to be gross receipts minus all marketing costs such as yardage, selling commissions, insurance and transportation. Date of sale is to be as mutually agreed.

- or -

Fixed Number of Calves

The Operator agrees to provide the Owner with _____ calves by _____ _____ *(date)* of each year. The Operator receives the remainder of the calves. The method of fairly dividing the offspring shall be by the following:

_____

_____.

(Describe how the calves are to be divided between the Owner and the Operator, including whether or not the size, type and gender of the calves to be taken is to be specific or general, or the method to be used, such as alternating picks or chute run.)

- or -

Flexible Share Lease

The Operator shall be entitled to the first $_____ of sales revenue with the balance of sales revenue to be shared _____% to the Operator and _____% to the Owner. Sales revenue is considered to be gross receipts minus all marketing costs such as yardage, selling commissions, insurance and transportation. Date of sale is to be as mutually agreed.

7. Termination of This Agreement

a) This agreement will commence on _____ *(date)* and expire on _____ *(date)*. The Owner or the Operator may terminate this agreement by providing 60 days written notice to the other party or by mutual agreement at any time.

b) Upon termination of this agreement, the Operator shall deliver the Herd and the Owner's share of its offspring to a place as directed by the Owner. The Owner shall pay costs of transportation over 50 miles.

c) Upon the death of the Owner, this agreement will terminate on December 31 in the year of death. The Herd and the Owner's share of the off-spring shall be returned to the estate, with the Operator responsible for transportation costs.

d) Upon the death of the Operator, the agreement will terminate immediately and the Herd and the Owner's share of its off-spring shall be returned to the Owner, with the Owner responsible for transportation costs. The Operator's estate will be entitled to the agreed to compensation as if the Operator was still alive.

8. Owner's Rights

a) If during the term of the lease, any of the goods and chattels of the Operator are seized by any creditors of the Operator, or if the Operator makes any assignment of chattels involved in the lease for benefit of creditors without first obtaining written consent from the Owner, or if the Operator becomes bankrupt, this lease shall, at the option of the Owner, become forthwith forfeited and void and the year's share of the offspring shall become forthwith due.

b) The Operator shall permit the Owner to enter onto the ranch to examine the Herd and its offspring on any day during the hours of _____ and _____.

9. Operator's Rights

If the Operator fulfils the terms and conditions of this agreement he/she shall and may peaceably possess and enjoy the cattle for the duration of the agreement without any interruption or disturbance from the Owner or any person claiming through the Owner except as noted in 8(b).

10. Provisions for Arbitration

Any disagreement which may arise between the contracting parties with respect to the rights and responsibilities as provided for by this agreement, shall when a mutually satisfactory settlement cannot otherwise be reached, be submitted to arbitration, pursuant to *The Arbitration Act.*

11. Subsidies or Compensation

Any subsidies or compensation shall go to the party owning the animals on which the payment is made. *(You may consider an added paragraph on compensation from Agriculture and Agri-Food Canada if herd has to be disposed of, and compensation is paid.)*

- or -

Any subsidy or compensation arising from the Herd shall go to the Owner, and any subsidy or compensation arising from the offspring of the Herd shall be shared in the same proportion as the calf crop.

SIGNED AND DELIVERED on _____,20_____

_____ _____

Witness Owner

SIGNED AND DELIVERED on _____,20_____

_____ _____

Witness Operator

Schedule A – "the Herd"

Number of Animals	Breed/Species	Age	Sex	Brand/Tatoo	Other Features

Schedule B

Formulas

1. Cow replacement = $\frac{\text{replacement value - cull value}}{\text{years of use}}$

2. Cow death loss = average cow value x death loss

3. Bull replacement = $\frac{\text{replacement value - cull value}}{\text{years of use x cows per bull}}$

4. Bull death loss = $\frac{\text{average bull value x death loss}}{\text{cows per bull}}$

5. Depreciation on buildings = $\frac{\text{replacement value - salvage value}}{\text{years of use}}$

6. Depreciation on equipment = $\frac{\text{replacement value - salvage value}}{\text{years of use}}$

7. Interest on facilities = $\frac{\text{(replacement value + salvage value)}}{2}$ x interest rate

8. Interest on equipment = $\frac{\text{(replacement value + salvage value)}}{2}$ x interest rate

9. Interest on cow herd = average cow value x interest rate

10. Interest on bull = $\frac{\text{average bull value x interest rate}}{\text{cows per bull}}$